

Economic Growth in India and the Challenges of Inclusiveness

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Abstract

Economic growth is accelerating at a very faster rate in India over the last decades; however the growth is yet to reach the common masses due to various challenges of inclusiveness. Making growth more inclusive through equal distribution of income and wealth is one of the major challenges. Addressing widespread poverty, problems of unemployment, financial exclusions, health and sanitation, infrastructure, etc. are the key challenges for India to achieve inclusive economic growth. To address the challenges, India requires sustainable investment in people, starting from health and education with transport, energy, and financial inclusions of weaker sections of the society. It also requires a review of the poverty reduction programmes, their targeting and efficiency. Rapid growth is not creating enough jobs for the people that pay a living wage or better. It seems employment opportunities are inadequate with the increase in population of India. Institutions, regulation and economic governance need to adapt sustainable economic transformation for India to address its social and economic challenges. The bottlenecks that are bearing down on inclusiveness will have to be addressed for India to continue to contract its major gap in challenges of inclusiveness. The Indian authorities have recently renewed their reform impetus and are working to liberalise foreign direct investment in some of the key areas, to reform the tax system and the delivery of subsidies. These are important measures, however further reforms are essential for India to make the most of its assets utilizations; a young and dynamic population, an entrepreneurial and increasingly innovative business sector and proximity to one of the most dynamic emerging economies in the world.

Keywords: Economic growth, inclusiveness, poverty reductions, FDI, dynamic population.

Introduction

India has implemented verities of reforms which opened up the economy for external world by dismantling the old licensing system and introducing competition into a number of sectors that had previously been dominated by public monopolies. This progressive action has helped the Indian economy to contract the gap in living standards with advanced economies. Convergence economic growth accelerated from the year 2000s average growth of over 8% in a year, one of the strongest performances in the world. In recent years, economic growth has slowed down reflecting not only the weak global economic environment but also the emergence of strains twisted by the pressure on regulation, economic governance, corruption, natural resources, infrastructure and its socio economic constraints.

The main aim of the paper is to analyse the various challenges of inclusiveness in economic growth which need to be addressed to achieve inclusive and sustainable growth.

GDP Growth Rate

Economic progression of India in the post reforms period has been increasing tremendously with the average annual growth rate of 7.5% in real GDP. The average growth rate in the ten year period from 2000-01 to 2011-12 was around 7.5% as shown in Table I, which puts India among the fastest growing emerging economies in the world.

Table I - The real GDP growth for the year 2000- 2011

Year	Growth (real)
2000	5.5 %
2001	6.0%
2002	4.3%
2003	8.3%
2004	6.2%
2005	8.4%
2006	9.2%
2007	9.0%
2008	7.4%
2009	7.4%
2010	10.4%
2011	7.2%
2012	6.5%

Source: Economic Survey, 2011 -2012

Challenges to inclusiveness

Though the economy is growing at the fastest rate, however there are many challenges to achieve inclusiveness in economic growth. Some of the main challenges are outlined below:

The challenge of reviving convergence and enhancing inclusiveness

The Indian economy now ranks third largest in the world measured in PPP terms and world leading Indian enterprises have emerged across a number of sectors such as information technology, automobile and services sector in the world. The potential for sustained and strong growth is high. The Indian population is young by international comparison and this together with declining fertility has led to a falling youth dependency rate. The national savings rate is also high and with the given favourable demography there is a huge potential of earnings, this can help in providing the capital needed to fund investment in infrastructure as well as strong expansion in private enterprise. Furthermore, despite employment rising in the industrial and service sectors, around half of all workers remain in low value added agriculture. The scope is therefore enormous for productive gains by further migrating of workers into modern sectors.

Poverty and Inequality

Poverty and inequality are deep rooted in Indian economy which reduces the potentiality for inclusiveness in economic growth. India needs to ensure that stronger growth benefits for all Indians. While severe poverty gradually but persistently changes direction to downwards, today large sections of the population still remaining below national and international poverty lines. A large share of the population is employed in the informal sector generally in low paid, low productivity jobs with no access to training. Access to basic services including health care and electricity is limited. Widespread informality limits tax collection and in turn the ability of public spending to expand in social areas, innovation and infrastructure. There has also been growing disparity in performance between the different states, which reflects differences in the product and labour market regulations across states. The unequal distribution of income and wealth widen the gap of inequality by making rich richer and poor poorer. Government data shows that minority, scheduled tribes and castes exhibit much higher poverty rates than the average population with women and children suffering the highest incidence of poverty as well as poorer health and education.

India has made impressive progress in reducing absolute poverty over the past decades but inequality is rising. In 2009-2010, 33.8% of the rural population and 20.9% of the urban population lived below the Government's official absolute poverty line down from 42% and 25.5% respectively in 2004-2005. This is the continuation of long-term trends underway since the 1970s. Economic growth has played a pivotal role in poverty reduction, however still growth is yet to reach common masses.

Problem of unemployment

Though economy of India is increasing at faster rate, but the chronic problem of unemployment is another big challenge for inclusive growth. Indian economy is performing well when it comes to creating jobs, informal employment accounts for approximately 85% of total employment, with women slightly less than men to hold formal jobs. The incidence of informal employment is much higher in India than in most other large emerging countries. Overall the employment rate is held down by the relatively low participation rates from various sections of the society. The youth unemployment rate is five times the rate of adults (10.3% versus 2.1%) indicating that the transition from school to working life is often difficult. The National Policy on Skills Development in India, which encompasses the creation of public-private partnerships to strengthen industry engagement in skills development, is yet to reach most of the population.

Access to primary healthcare and basic amenities

Large sections of the population suffer from poor health and although it has been increasing, average life expectancy remains relatively low. Though India is progressing towards the success, spending on health care and basic amenities is yet to reach all sections of the society. The gaps between the rural and urban are very high which makes bigger challenge to achieve inclusiveness in providing quality healthcare and basic amenities. Again, another concern is the disparities in quality of healthcare and basic amenities in different states. This reflects both differences in levels of economic development and major disparities in public health and major challenges to achieve it inclusively. The limited scope for major fiscal equalisation between richer and poorer states, a situation that is further complicating the different levels of priority that differ states assigning to financing health care and basic amenities.

A key challenge for India is making health care delivery more effectively while increasing resources. Expanding the medical workforce and other healthcare infrastructure in all over the country and higher spending in healthcare lead to bottlenecks. The challenge of expanding health care coverage by defining a limited set of essential services, usually primary care services such as vaccination and children's health is hindrance to overall economic growth of the country.

Quality education

Quality education has a central role in promoting inclusive economic development. It can notably help reduce the share of informal employment going forward and promote social inclusion. Higher human capital is essential in supporting productivity and innovation in the country. Long-term investment in a small number of elite higher education institutions has helped the development of India's IT and business services sectors which are contributing country's strong growth performance during the past two decades. However, such investments have not been matched by broader investment in mass education, leading to inequality and social exclusion of large parts of the population. As per NASSCOM, only 25 % of technical graduate are eligible for IT industry jobs and 10% of general graduates are eligible for ITES/BPO jobs due to lack of quality educations. This issue leads industries to invest large fund on the human resources training. About half of the relevant age group is enrolled in secondary education with many more girls than boys out of school. The challenge is therefore to improve the quality of education and provide equitable access at all levels.

Dependence on agriculture

India being an emerging economy, still 60% of the people of the country is depended on agriculture being the primary sources of livelihood, whereas contribution from the agricultural sector is contracting at a very faster rate but the dependence on agriculture is remaining same which is another big hindrance for economic growth. Now, one of the key challenges for India is to make its agricultural sector more productive and more sustainable. Population pressure, inheritance laws and a lack of employment opportunities in rural areas have contributed to both an increase in the number of farmers as well as a decrease in the average farm size. Agriculture growth has been uneven across most of the regions, reflecting structural differences in land availability, population growth, off farm labour opportunities as well as uneven access to modern technology. The need to improve agriculture productivity and sustainability is another big challenge to achieve inclusiveness in economic growth.

Problem of basic Infrastructure

The basic infrastructural system has faced difficulties keeping up with the rising demand and this now sets back economic development due to high concentration of the existing level of infrastructure. The growth of traffic in roads, rails and air travels have outstripped the capacity of road, infrastructure and traffic management systems. In many rural areas economic expansion is severely constrained by the poor quality of roads and the inadequate and unsafe highway system. In some parts of the country, still there is no power supply or energy and Power shedding around the country is the most decisive challenges for inclusiveness in economic growth. Capacity is surpassed for both freight and passengers resulting in poor service quality. Resources remain inadequate for maintenance and expansion of the infrastructure to meet its steadily growing demand. The fundamental cause for the imbalance is the channelizing resources from profitable freight carriage to the support of low, government controlled tariffs and loss making passenger services which inflate demand and deprive freight of resources for investment.

Financial Exclusions

India's financial system has been increasing significantly since the year 1991 and has weathered the global crisis better than a number of other countries. Competition in the banking sector has intensified as new private banks which were allowed to enter and most interest rates have been liberalized. However, still more inclusiveness is needed to make the financial sector stronger and more efficient to ensure optimal allocation of capital across the country. Such an optimal allocation is important and prerequisite in a fast growing economy like India to include the poor and deprived sections of the society. Another challenge is to promote financial inclusion which can notably support the development in rural areas and help the poor to cope with high income variability. Though the competition in the banking sector has been increased tremendously, it is still dominated by public sector institutions and costs remain high. On average, Indian banks have strong balance sheet positions, but a small number of state owned banks remain dependent on recurrent state capital injections. There is a need to end the cycle of bail outs by raising limits on private ownership and further selling off government stakes in public sector banks. Working conditions need to be aligned closer to those in the private sector to overcome bureaucratic control. Regulatory arbitrage has been pervasive within the financial industry pointing to the need to streamline arrangements amongst the key regulators. Banks have often failed to reach the poor directly, be in urban or rural settings, despite central bank insistence that the opening of new branches in urban areas be matched by new branches in rural areas but still there exist a big gap between the urban and rural economy. Although micro finance institutions may not reduce gap of disparity as much as is often believed, however to meet the strong demand is another big challenge for inclusive economic growth.

Population growth

Increase in population is another major challenge for inclusiveness in economic growth. With the fasted growth of population, the basic necessities are hardly met and migrating rural to urban areas. Major challenges for

economic growth are mainly associated with the overpopulation which leads to shortage of food supply, high infant and child mortality, water and air pollutions, unemployment, general poverty, inequality and so on. All these issues need to be addressed to achieve economic growth inclusively.

Conclusion

As explained above, sustainable and inclusive economic growth can be achieved when we addressed all the above challenges. Improving innovations in policies, reforms in financial inclusions of minority, schedule castes, schedule tribes and other weaker sections of the society with good governance are the important prerequisite to achieve inclusiveness. Improve in provision of human resources development should be top priority for education at all levels by significantly raising education budgets. Furthermore, the Higher Education and Research Bill of 2011 which proposes a National Commission to improve regulation of university education and vocational and technical training should be implemented immediately. The potential of micro enterprises and SMEs in semi-urban and rural areas should be fully supported by the authorities to provide maximum employment opportunities to all. Standard of living of the masses should be addressed by providing them earning opportunities. Inequality in income should be curbed through rigorous taxes to the high income group. Corruption in any form should not be accepted by the masses and people themselves should be responsible to avoid corruption. Improve conditions for business and enhancing competitions in all the socio economic sectors are significant to achieve inclusive and sustainable economic growth.

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